

RURAL WATER, SEWER AND SOLID
WASTE MANAGEMENT DISTRICT #3,
ROGER MILLS COUNTY, OKLAHOMA

FINANCIAL STATEMENTS
AND AUDITOR'S REPORT

DECEMBER 31, 2013 AND 2012

**RURAL WATER, SEWER AND SOLID
WASTE MANAGEMENT DISTRICT #3,
ROGER MILLS COUNTY, OKLAHOMA
TABLE OF CONTENTS
DECEMBER 31, 2013 AND 2012**

	<u>Page Number</u>
INDEPENDENT AUDITOR'S REPORT	1 - 3
BASIC FINANCIAL STATEMENTS	
Balance Sheets	4
Statements of Activities	5
Statements of Cash Flows	6
Notes to the Financial Statements	7 - 13
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	14 - 16
SCHEDULE OF FINDINGS AND RESPONSES	17 - 24
UPDATE ON PRIOR YEAR AUDIT DEFICIENCIES	25 - 31



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rural Water, Sewer and Solid Waste Management
District # 3, Roger Mills County, Oklahoma
Reydon, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the Rural Water, Sewer and Solid Waste Management District # 3, Roger Mills County, Oklahoma, as of December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance

about whether the financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amount and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinions

The District has not been appropriately recording and reconciling its utility accounts receivable and customer deposit liability transactions making it more difficult to determine the adequacy and appropriateness of the final balance. In 2013, we found five items that the records indicated were received and applied to utility accounts but the monies were not deposited into the bank accounts. These are shown in these financial statements as questionable costs. These items along with the internal control weaknesses resulted in scope limitations in the audit. The amount that these limitations affect the assets, liabilities, net position, and the revenues of the District is not reasonably determinable. We are also amending the 2012 audit opinion to a qualified opinion.

Qualified Opinions

In our opinion, except for the effects on the financial statements of the scope limitations described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Rural Water, Sewer and Solid Waste Management District # 3, Roger Mills County, Oklahoma, as of December 31, 2013 and 2012, and the respective changes in financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

The District has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 14, 2016, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.

McCulley & McCulley

Weatherford, Oklahoma

June 14, 2016

**RURAL WATER, SEWER AND SOLID WASTE
MANAGEMENT DISTRICT #3, ROGER MILLS COUNTY, OKLAHOMA
BALANCE SHEETS
DECEMBER 31, 2013 AND 2012**

ASSETS	2013	2012
Current Assets		
Cash on Hand	\$ 100	\$ 100
Cash in Bank	38,008	32,801
Cash in Savings	18,008	24,933
Prepaid Assets	1,247	1,257
Accounts Receivable, Net of Allowance for Loss	<u>2,108</u>	<u>2,316</u>
Total Current Assets	<u>59,471</u>	<u>61,407</u>
Noncurrent Assets		
Restricted Cash	13,427	13,387
Capital Assets, Net of Accumulated Depreciation	<u>343,538</u>	<u>268,950</u>
Total Noncurrent Assets	<u>356,965</u>	<u>282,337</u>
TOTAL ASSETS	<u>\$ 416,436</u>	<u>\$ 343,744</u>
LIABILITIES AND NET POSITION		
LIABILITIES		
Current Liabilities		
Accounts Payable	\$ 12,011	\$ 8,298
Accrued and Withheld Payroll Taxes	2,403	2,354
Customer Deposits Payable	3,370	3,370
Current Portion of Long-Term Debt	<u>660</u>	<u>628</u>
Total Current Liabilities	<u>18,444</u>	<u>14,650</u>
Long-Term Liabilities		
Mortgage Payable - Rural Development	18,535	19,164
Less Current Portion of Mortgage Payable	<u>(660)</u>	<u>(628)</u>
Total Long-Term Liabilities	<u>17,875</u>	<u>18,536</u>
TOTAL LIABILITIES	<u>36,319</u>	<u>33,186</u>
NET POSITION		
Net Investment in Capital Assets	325,003	249,786
Restricted	10,057	10,017
Unrestricted	<u>45,057</u>	<u>50,755</u>
TOTAL NET POSITION	<u>380,117</u>	<u>310,558</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 416,436</u>	<u>\$ 343,744</u>

The accompanying notes are an integral part of these statements.

**RURAL WATER, SEWER AND SOLID WASTE
MANAGEMENT DISTRICT #3, ROGER MILLS COUNTY, OKLAHOMA
STATEMENT OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
Operating Revenues		
Water and Sewer Sales	\$ 45,588	\$ 49,902
Late Charges	1,565	1,485
Miscellaneous Income	<u>776</u>	<u>1,619</u>
Total Operating Revenues	<u>47,929</u>	<u>53,006</u>
Operating Expenses		
Salaries	19,200	19,200
Payroll Taxes	1,714	1,588
Utilities	3,864	3,243
Travel	1,208	1,472
Professional Fees	4,000	5,100
Insurance	2,418	2,331
Maintenance & Supplies	6,245	15,571
Dues and Registrations	548	1,462
Depreciation	32,092	31,247
Bad Debt Expense	1,934	
Miscellaneous Expenses	<u>3,098</u>	<u>1,851</u>
Total Operating Expenses	<u>76,321</u>	<u>83,065</u>
(Loss) from Operations	<u>(28,392)</u>	<u>(30,059)</u>
Other Revenue (Expense)		
Contributed Memberships Received	15	20
Grant Revenue	99,124	
Interest Income	212	212
Questionable Costs	(456)	
Interest Expense	<u>(944)</u>	<u>(1,050)</u>
Net Other Revenue (Expense)	<u>97,951</u>	<u>(818)</u>
Change in Net Position	69,559	(30,877)
Net Position - Beginning of Year	<u>310,558</u>	<u>341,435</u>
Net Position - End of Year	<u>\$ 380,117</u>	<u>\$ 310,558</u>

The accompanying notes are an integral part of these statements.

**RURAL WATER, SEWER AND SOLID WASTE
MANAGEMENT DISTRICT #3, ROGER MILLS COUNTY, OKLAHOMA
STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
Cash Flows from Operating Activities		
Cash Received from Customers	\$ 44,269	\$ 55,055
Cash Paid for Goods and Services	(15,724)	(28,528)
Cash Paid to Employees	(20,865)	(18,814)
Net Cash Provided by Operating Activities	<u>7,680</u>	<u>7,713</u>
Cash Flows from Noncapital Financing Activities		
Memberships Received	15	20
Questionable Costs not Deposited	(456)	
Customer Deposits Received (Refunded), Net		(120)
Net Cash (Used for) Noncapital Financing Activities	<u>(441)</u>	<u>(100)</u>
Cash Flows from Capital and Related Financing Activities		
Grant Revenue Received	99,124	
Purchase of Capital Assets	(106,680)	
Interest Paid on Mortgage Payable	(944)	(1,050)
Principal Paid on Mortgage Payable	(629)	(4,749)
Net Cash (Used for) Capital and Related Financing Activities	<u>(9,129)</u>	<u>(5,799)</u>
Cash Flows from Investing Activities		
Interest Received on Cash	212	212
Net Cash Provided by Investing Activities	<u>212</u>	<u>212</u>
Increase (Decrease) in Cash and Cash Equivalents	(1,678)	2,026
Balance of Cash and Cash Equivalents		
Beginning of Year	<u>71,221</u>	<u>69,195</u>
End of Year	<u>\$ 69,543</u>	<u>\$ 71,221</u>
Reconciliation of Operating (Loss) to Net Cash Provided by Operating Activities:		
Operating (Loss)	\$ (28,392)	\$ (30,059)
Adjustments to Reconcile Operating (Loss) to Net Cash Provided by Operating Activities		
Depreciation	32,092	31,247
Changes in Assets and Liabilities		
Decrease in Due from Town of Reydon		1,191
(Increase) Decrease in Prepaid Assets	10	(40)
(Increase) Decrease in Accounts Receivable, Net	208	(748)
Increase in Accounts Payable	3,713	4,148
Increase in Payroll Taxes Payable	49	1,974
Total Adjustments	<u>36,072</u>	<u>37,772</u>
Net Cash Provided by Operating Activities	<u>\$ 7,680</u>	<u>\$ 7,713</u>

The accompanying notes are an integral part of these statements.

**RURAL WATER, SEWER AND SOLID
WASTE MANAGEMENT DISTRICT #3,
ROGER MILLS COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 2013 AND 2012**

Note 1 - Significant Accounting Policies.

A. The Reporting Entity.

Rural Water, Sewer and Solid Waste Management District # 3, Roger Mills County, Oklahoma, (the District) provides water and sewer services to its members within its geographic boundaries. The District is governed by a three member Board of Directors who are elected by the participating members. The District was officially created when approved by the Board of County Commissioners of Roger Mills County, Oklahoma, on May 30, 2000. These financial statements include all of the funds under the control of the Board of Directors relevant to the operations of the District.

Membership in the District is necessary to purchase water and sewer services provided by the District and requires a membership fee. This initial membership fee is non-reimbursable and are considered donations to the District.

The accounting policies of the District conform to generally accepted accounting principles as applicable to government organizations in the United States. These standards are set by the Government Accounting Standards Board (GASB). Certain GASB pronouncements have been implemented early in order to conform to current financial statement presentations. The following is a summary of the more significant policies.

B. Basis of Presentation.

The accounts of governmental entities are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of accounts which are comprised of each fund's assets, liabilities, net position, revenues and expenses. The activities of the District are organized into a single fund, an enterprise fund (proprietary fund type).

Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or

**RURAL WATER, SEWER AND SOLID
WASTE MANAGEMENT DISTRICT #3,
ROGER MILLS COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 2013 AND 2012**

Note 1 - Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, accountability, or other purposes.

C. Basis of Accounting

Basis of accounting refers to revenues and expenses and when they are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement focus applied.

Enterprise funds use the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the obligation is incurred.

D. Accounts Receivable

Accounts receivable are recorded at their net realizable value. Accordingly, the District's management evaluates the receivable accounts periodically and establishes an allowance for uncollectible accounts for those deemed uncollectible. The allowance for uncollectible accounts was \$9,909 and \$7,975 at December 31, 2013 and 2012, respectively.

E. Capital Assets

All capital assets are valued at historical cost. Assets are depreciated on the straight-line basis over the estimated useful life of the asset. Depreciation is calculated utilizing the straight-line method over an estimated useful life of 10 to 50 years.

**RURAL WATER, SEWER AND SOLID
WASTE MANAGEMENT DISTRICT #3,
ROGER MILLS COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 2013 AND 2012**

Note 1 - Significant Accounting Policies (continued)

F. Cash and Cash Equivalents.

For the purposes of the Statement of Cash Flows, cash on hand, cash in bank and in savings (including restricted cash), are considered to be cash and cash equivalents. All but cash on hand is FDIC insured.

G. Net Position

Net position (formerly called net assets) is classified into three components:

1. Net investment in capital assets - Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any mortgages payable attributable to these assets.
2. Restricted - Consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Restricted assets have constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional revisions or enabling legislation. Restricted net position are assets restricted for debt service and includes the amount in excess of the actual requirement since the Board of Trustees has not transferred those amounts to its operating account.
3. Unrestricted - Net amount of the assets, deferred outflows or resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

Note 2 - Restricted Cash.

Restricted cash consists of customer deposits and a reserve fund for the repayment of the mortgage payable to Rural Economic & Community Development (RECD). The amount restricted for customer deposits is offset by a related liability payable.

**RURAL WATER, SEWER AND SOLID
WASTE MANAGEMENT DISTRICT #3,
ROGER MILLS COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 2013 AND 2012**

Note 2 - Restricted Cash (continued).

	DECEMBER 31,	
	2013	2012
Customer Deposits	\$ 3,370	\$ 3,370
RECD Reserve Fund	10,057	10,017
Total Restricted Cash	\$ 13,427	\$ 13,387

The RECD Reserve Fund requirement has been reduced from \$8,148 to \$1,572 in 2012 due to the payoff of one of the mortgage payables in 2012. The District's reserve account exceeds this requirement by \$8,485 and 8,445 at December 31, 2013 and 2012, respectively.

Note 3 - Capital Assets, Net.

The District's capital assets consisted of the following:

	DECEMBER 31,			
	2012	Additions	Deletions	2013
Capital Assets:				
Land	\$ 7,700	\$	\$	\$ 7,700
Water Distribution	300,245			300,245
Water Tower Improve.	64,666			64,666
Buildings	32,867			32,867
Equipment	33,968	27,000		60,968
Wastewater Treatment				
Facility & Lines	300,226	79,680		379,906
Total Capital Assets	739,672	106,680		846,352
Less Accumulated Depreciation:				
Water Distribution	152,628	11,873		164,501
Water Tower Improve.	56,014	4,514		60,528
Buildings	10,540	809		11,349
Equipment	28,372	2,381		30,753
Wastewater Treatment				
Facility & Lines	223,168	12,515		235,683
Total Acc. Deprec.	470,722	32,092		502,814
Capital Assets, Net	\$ 268,950	\$ 74,588	\$ -0-	\$ 343,538

**RURAL WATER, SEWER AND SOLID
WASTE MANAGEMENT DISTRICT #3,
ROGER MILLS COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 2013 AND 2012**

Note 3 - Capital Assets, Net (continued).

	DECEMBER 31,			
	2011	Additions	Deletions	2012
Capital Assets:				
Land	\$ 7,700	\$	\$	\$ 7,700
Water Distribution	300,245			300,245
Water Tower Improve.	64,666			64,666
Buildings	32,867			32,867
Equipment	33,968			33,968
Wastewater Treatment Facility	300,226			300,226
Total Capital Assets	739,672			739,672
Less Accumulated Depreciation:				
Water Distribution	140,755	11,873		152,628
Water Tower Improve.	51,500	4,514		56,014
Buildings	9,731	809		10,540
Equipment	26,330	2,042		28,372
Wastewater Treatment Facility	211,159	12,009		223,168
Total Acc. Deprec.	439,475	31,247		470,722
Capital Assets, Net	\$ 300,197	\$ (31,247)	\$ -0-	\$ 268,950

Note 4 - Mortgages Payable.

The District long-term debt consists of borrowed funds from the Rural Economic & Community Development as follows:

	DECEMBER 31,	
	2013	2012
In January, 1994, the District borrowed an additional \$ 12,200 and \$ 14,500 from the Rural Economic & Community Development. Mortgage terms call for interest only payments at the end of the first year, and then monthly payments thereafter of \$60 and \$71, respectively. Interest rate for both loans is at 5%. Term is for 40 years.	8,488 <u>10,047</u>	8,776 <u>10,388</u>
Total Mortgages Payable	\$ 18,535	\$ 19,164

**RURAL WATER, SEWER AND SOLID
WASTE MANAGEMENT DISTRICT #3,
ROGER MILLS COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 2013 AND 2012**

Note 4 - Mortgages Payable (continued).

All of these mortgages are secured by a mortgage and security agreement on the system along with a pledge and assignment of revenues and receipts derived by the District from its water system and other revenue producing utility systems.

Changes in the District's long-term debt are as follows:

	DECEMBER 31,	
	2013	2012
Beginning Balance	\$ 19,164	\$ 23,913
Principal Reductions	(629)	(4,749)
Ending Balance	\$ 18,535	\$ 19,164

Annual requirements to amortize the mortgages payable at December 31, 2013, are as follows:

Year Ending December 31,	Principal	Interest	Total
2014 Due within 1 yr.	\$ 660	\$ 912	\$ 1,572
2015	694	878	1,572
2016	730	842	1,572
2017	767	805	1,572
2018	806	766	1,572
2019 - 2023	4,693	3,167	7,860
2024 - 2028	6,022	1,838	7,860
2029 - 2031	4,163	313	4,476
Total	\$ 18,535	\$ 9,521	\$ 28,056

Note 5 - Contributed Capital.

As provided in the corporation's by-laws, non-reimbursed membership fees are considered donations to the District. As a result, the District's contributed capital changed as follows:

	DECEMBER 31,	
	2013	2012
Contributed Capital, Beginning	\$ 3,320	\$ 3,300
Membership Fees Collected	15	20
Contributed Capital, Ending	\$ 3,335	\$ 3,320

These are included in the District's unrestricted net position.

**RURAL WATER, SEWER AND SOLID
WASTE MANAGEMENT DISTRICT #3,
ROGER MILLS COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 2013 AND 2012**

Note 6 - Risk Management.

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchases commercial insurance to manage these risks of loss and retains deductibles ranging from \$250 to \$1,000.



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**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF THE FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Rural Water, Sewer and Solid Waste Management
District # 3, Roger Mills County, Oklahoma
Reydon, Oklahoma

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the Rural Water, Sewer and Solid Waste Management District # 3, Roger Mills County, Oklahoma, as of and for the year ended December 31, 2013 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report dated June 14, 2016. The District has elected to omit the management discussion and analysis, which is required supplementary information under generally accepted accounting principles in the United States. In our audit, we issued a qualified opinion due to scope limitations.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances and for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting.

Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, there can be no assurance that all material weaknesses or significant deficiencies have been identified. However, as discussed in the Schedule of Findings and Responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies as items 1, 2, 3, 4, and 8 described in the accompanying schedule of findings and responses to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies as items 5 and 9 described in the accompanying schedule of findings and responses to be a significant deficiency.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance and other matters that are required to be reported under Government Auditing Standards. These are described as items 2, 6 and 7 in the accompanying schedule of findings and responses.

DISTRICT RESPONSE TO FINDINGS

The District's responses to the findings identified in our audit is described in the accompanying schedule of findings and

responses. We did not audit the District's responses and accordingly, we express no opinion on it.

PURPOSE OF THIS REPORT

This purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

McCulley & McCulley

Weatherford, Oklahoma

June 14, 2016

**RURAL WATER, SEWER AND SOLID
WASTE MANAGEMENT DISTRICT #3,
ROGER MILLS COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2013**

1. LACK OF SEGREGATION OF DUTIES.

CONDITION AND EFFECT - The District does not have adequate segregation of duties in that it has only one office person that does all the bookkeeping, reconciliations, paying bills, and payroll. The effect of the lack of segregation of duties could result in material errors and fraud occurring and not be detected in a timely manner.

RECOMMENDATION - Recommend the District segregate the duties to the extent possible in the future.

RESPONSE - The District will keep this recommendation in mind should circumstances change in the future and it is economically feasible. The District is aware of this weakness in its internal control structure but does not consider it to be economically feasible to hire additional personnel to achieve adequate segregation of duties.

2. Customer Deposits Payable.

CONDITION AND EFFECT - The District did not balance the customer meter deposits payable subsidiary ledgers to the cash account. The computer generated list of customer deposits did not include both active and inactive accounts. **This has been a repeat comment since the 2001 audit report.** The District has also applied the customer meter deposit to the customer's final bill, but have not transferred the actual cash from the meter deposit savings account to the operating checking account, nor were accounting entries made in the general ledger for these transactions. In 2013, the District moved the meter deposits cash account from a savings account to a checking account. This meter deposit checking account was not posted in the accounting records at the start of the audit. The District posted these transactions after the auditor brought this to their attention. Noted some billing customers had their meter deposits applied twice to their billing account in prior years. Beginning in 2011, the District did not actually pay to the customer(s) their refund of their deposit, with a few exceptions. This is a violation of state statutes (Sec. 11-35-107) which state that a refund must be paid within 30 days of termination of service.

In 2013, noted two deposits totaling \$120 in the billing records that state they were received but these amounts were not posted on the accounting records nor were the monies deposited into the

**RURAL WATER, SEWER AND SOLID
WASTE MANAGEMENT DISTRICT #3,
ROGER MILLS COUNTY, OKLAHOMA
SCHEDULE OF FINDING AND RESPONSES
DECEMBER 31, 2013**

2. Customer Deposits Payable (continued).

meter deposit checking account. Additional audit procedures performed indicated they were valid meter deposits. We could not determine what happened to the monies received.

RECOMMENDATION - Recommend the District update its listing of customer meter deposits and correct any errors, if any. This list (both active and inactive accounts) should be printed at the end of each month and balanced monthly to the cash account to ensure accuracy. Any reconciling items or discrepancies should be documented and thoroughly investigated and corrections made as necessary. Applying the customer meter deposit to the customer's final bill should only be done when the customer meter deposit cash is transferred to the checking account and the account is closed or made inactive at the same time. Accounting entries should be made for all customer deposit transactions on the same date the utility records are changed.

The District needs to comply with state statutes concerning refunding of deposits to customers.

The District should have made sure all the activity was posted to the accounting records and the new checking account was posted and balanced to the bank statement.

The District should ensure all deposits are properly accounted for and deposited into the checking account.

Recommend the Board of Directors take an active interest in ensuring this comment is corrected since it has not been corrected since the 2001 audit.

The effect of the lack of controls over customer meter deposits and utility records could result in material errors and fraud occurring and not be detected in a timely manner.

RESPONSE - The District hired a new bookkeeper on December 16, 2015. The new bookkeeper has been training on her responsibilities and working hard to catch up on all the things that were not done before being hired.

3. Accounts Receivable and Billing Records.

CONDITION AND EFFECT - When a utility billing account is finalized, and the customer meter deposit is taken, the

**RURAL WATER, SEWER AND SOLID
WASTE MANAGEMENT DISTRICT #3,
ROGER MILLS COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2013**

3. Accounts Receivable and Billing Records (continued).

transactions are shown on the deposit disposition reports and shown on the final bill, but are not recorded in the billing account receivable records nor posted to the general ledger control account resulting in differences in the records. The reason for the differences in the billing statements and accounts receivable balances is not known. In 2013, the District did not post the adjustments and bill reversals to the general ledger accounting records. An end of the month aging accounts receivable (with active and inactive accounts) print-out was printed but the total due was not compared and/or reconciled to the general ledger control account. Thus the ending accounts receivable per the general ledger did not agree to the ending accounts receivable per the billing records. **This has been a repeat comment since the 2001 audit report.**

In 2013, noted three payments were posted to the billing records but not to the accounting records nor were these deposited to the bank account. The total of these payments were \$336. Additional audit procedures performed could not determine if these checks had actually been received or determine what happened to the monies if received. The effect of the lack of controls over accounts receivable and utility billing could result in material errors and fraud occurring and not be detected in a timely manner.

RECOMMENDATION - All transactions that adjust the balance of account receivable utility billing transactions should be posted to the general ledger control account. Deposit dispositions should be done when the cash is transferred to finalize the bills. The District should contact their software support personnel to find out why the system apparently is not recording these final bills properly within the billing system. At the end of each month, an ending accounts receivable aging report should be printed showing all accounts (active and inactive) and the amounts due. The total of this report should agree to the general ledger accounts receivable balance. If any differences exist, then these amounts should be reconciled and documented. Adjusting entries should be made as necessary.

The District should ensure that all payments are properly accounted for and deposited into the bank account.

Recommend the Board of Directors take an active interest in ensuring this comment is corrected since it has not been

**RURAL WATER, SEWER AND SOLID
WASTE MANAGEMENT DISTRICT #3,
ROGER MILLS COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2013**

3. Accounts Receivable and Billing Records (continued).

corrected since the 2001 audit. Also recommend the bookkeeper take appropriate training on using the system to ensure the transactions are recorded properly. If no training is available, then the District should consider hiring a consultant to help in correcting these problems.

RESPONSE - The District has printed the aging report with the active and inactive accounts at the end of the month but did not reconcile to the general ledger. The District hired a new bookkeeper on December 16, 2015. The new bookkeeper has been training on her responsibilities and working hard to catch up on all the things that were not done before being hired.

4. Reconciling Accounting Records to the Bank Statements.

CONDITION AND EFFECT - The District has not been reconciling its bank general ledger accounts to the respective bank statements. Some adjusting entries were made. It appeared the checking account was being posted from the bank statement versus the source documents since a few reconciling items were not posted in the proper year. Some savings accounts did not have transactions for the year posted in the accounting records. We also noted that the accounting records have not been completed since July 2015, indicating that they are not being done timely. The effect of not posting the accounting records timely and reconciling the accounting records to the bank statements could result in material errors and possible fraud occurring and not be detected in a timely manner.

RECOMMENDATION - The District should make sure all its accounting transactions are posted in the proper accounting period. Checks and deposits should be posted on the day they are written or prepared for deposit. The accounting records should be prepared from the source documents (check register/deposit slips) and reconciled to the bank statements monthly. Reconciling items should be documented, and adjustments (if any) should be made as needed. All bank accounts should be reconciled with the books. These procedures should be done shortly after the end of each month. Accounting records should be posted monthly as well. Noted the software program has a bank reconciliation menu item on it that the District is not using.

**RURAL WATER, SEWER AND SOLID
WASTE MANAGEMENT DISTRICT #3,
ROGER MILLS COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2013**

**4. Reconciling Accounting Records to the Bank Statements
(continued).**

The District should consider utilizing the software program to do its bank reconciliations. The bookkeeper should also attend training classes on how to better use the software.

RESPONSE - The District hired a new bookkeeper on December 16, 2015. The new bookkeeper has been training on her responsibilities and working hard to catch up on all the things that were not done before being hired. The bookkeeper did not know the software had a bank reconciliation menu item in it. She will get with the software company about how to use it.

5. Delinquent Utility Account Receivable Accounts.

CONDITION AND EFFECT - The District delinquent utility account receivable accounts have been increasing and some are seriously delinquent and have balances that exceed the respective customer meter deposit. Many are still receiving services. The District's Board of Directors review the delinquent accounts every month at their monthly meeting. These delinquent accounts include two board of director accounts as of December 31, 2013. At June 9, 2016, one of these delinquent director account was current and the other one was still delinquent but the delinquent balances was decreasing. Noted no written deferral agreements in the District's files in accordance with the District rules and procedures guide. The effect of not following their rules and regulations increases the possibility of the District incurring losses and results in noncompliance with the established policy. It also could have negative consequences in the public's view about the management of the District.

RECOMMENDATION - The District should comply with its rules and regulations. Customers should bring their accounts current. This can be done by utilizing the deferral agreements and having them pay at least the current bill plus an extra amount on the delinquent bills. Employees and Directors accounts should not be delinquent. These should be brought current as soon as possible. With the District allowing the one Director to be seriously delinquent and the balances increasing, then this action (or lack of action) could potentially expose the other Directors to some personal liability.

**RURAL WATER, SEWER AND SOLID
WASTE MANAGEMENT DISTRICT #3,
ROGER MILLS COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2013**

5. Delinquent Utility Account Receivable Accounts (continued).

We noted the Board approved sending shut off notices to anyone whose bill is over \$60 (the meter deposit amount) at its March 8, 2016, meeting. Although this is a step in the right direction, we would recommend the Board approve sending shut off notices to all delinquent accounts, regardless of the delinquent balances. This is due to the fact that the water amounts billed are in arrears. Consequently, a customer may have used another month of water before a cut-off notice is received, and the water deposit held may not be enough to cover the amount used.

RESPONSE - The Board will review the policies and procedures.

6. Annual Meeting of Members.

CONDITION AND EFFECT - The District does not appear to have had any annual meeting of the members for 2009 to the present in accordance with their bylaws. Members are defined as those who subscribe or have a membership certificate and signed an agreement for the purchase of water and sewer services from the District. Bylaws state that an annual meeting of the members should occur on the first Monday in January of each year and it states the items that should be on the agenda. One item is the election of directors. No annual meeting minutes were located. The District is not in compliance with its bylaws.

RECOMMENDATION - The District should comply with its bylaws and have the annual meetings of its members. Proper notification of the meeting and the agenda should be followed as stipulated in the by-laws. Documentation of the notifications and meetings should be retained. The separate agenda and minutes should be kept of the annual meetings.

RESPONSE - The former clerk believed the monthly board meeting satisfied this requirement. The Board did have its regular meeting and some of the agenda items may have taken place there. The Board will review the by-laws and resume these meetings.

7. Documenting Decisions of the Board in the Minutes.

CONDITION AND EFFECT - Noted a leak adjustment was given to a customer in the billing records in October, 2009. The hand written note stated the leak adjustment was approved by the Board at its October 9, 2009, meeting. Upon review of the minutes, this leak adjustment was not mentioned in the minutes.

**RURAL WATER, SEWER AND SOLID
WASTE MANAGEMENT DISTRICT #3,
ROGER MILLS COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2013**

**7. Documenting Decisions of the Board in the Minutes
(continued) .**

Since these minutes were approved by the Board, then it is the official record of the meeting. Consequently, no leak adjustment should have been given. The minutes do not reflect that the Board ever approved this leak adjustment.

RECOMMENDATION - Board decisions should be documented in the minutes of the meeting. If an item is omitted or in error, then the minutes should be amended to correct them. If the Board had in fact approved this leak adjustment, then the Board should approve an amendment to the minutes and state that fact at its next Board meeting. It should document the amendment in the minutes of the meeting it was approved and also write in the amendment to the original meeting minutes stating what was amended and when it was amended. If the Board had not approved this leak adjustment, then the adjustment should be reversed and added back to the customer's bill. Either way, at this point, the minutes should reflect the Board's decision so this comment can be removed from the audit report.

RESPONSE - The District hired a new bookkeeper on December 16, 2015. The new bookkeeper has been training on her responsibilities and working hard to catch up on all the things that were not done before being hired. She will check with the Board about putting it on the next meeting agenda.

8. Questionable Costs.

CONDITION AND EFFECT - During the 2013 audit, we found 5 items that should have been deposited into the District's bank account. We noted two deposits totaling \$120 in the billing records that state they were received for meter deposits but these amounts were not posted on the accounting records nor were the monies deposited into the meter deposit checking account. C Additional audit procedures performed indicated they were valid meter deposits. We could not determine what happened to the monies received. The other items were three accounts receivable payments that were posted to the billing records but not to the accounting records nor were these deposited to the bank account. The total of these deposits were \$336. Additional audit procedures performed could not determine if these checks had actually been received or determine what happened to the monies if received. These transactions could also be indications of

**RURAL WATER, SEWER AND SOLID
WASTE MANAGEMENT DISTRICT #3,
ROGER MILLS COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2013**

8. Questionable Costs (continued).

misappropriation of assets. The effect of the lack of controls over monies received could result in material errors and fraud occurring and not be detected in a timely manner.

RECOMMENDATION - Recommend the District implement previous recommendations about reconciling and balancing the accounting records to the billing records and bank accounts monthly to strengthen internal controls over these areas. The Board should review and approve these reconciliations at their regular board meetings.

Response - The bookkeeper was hired on December 16, 2015. The new bookkeeper has been training on her responsibilities and working hard to catch up on all the things that were not done before being hired. She will discuss this recommendation with the Board.

9. Payroll Reports to Tax Authorities.

CONDITION AND EFFECT - Noted the first quarter 2013 941 report was not prepared properly and appropriate taxes due paid. Gross salaries and the taxes withheld and due were underreported. The third quarter 2013 941 report was not filed until January 6, 2014. Taxes were paid then. Oklahoma withholding payroll forms has not been filed for the third and fourth quarter 2012 and all of 2013 quarters.

RECOMMENDATION - The first quarter 2013 941 report should be amended to report the proper gross salaries and pay the additional taxes owed. This will cause the employer to also have to file an amended Oklahoma unemployment form and an amended W-2 for the employee affected. The missing Oklahoma withholding forms should be filed for the respective quarters and the taxes withheld paid. The respective tax authority may also assess the District additional penalties and interest for late filing and payment.

RESPONSE - The District will file amended returns and pay the taxes owed.

**RURAL WATER, SEWER AND SOLID
WASTE MANAGEMENT DISTRICT #3,
ROGER MILLS COUNTY, OKLAHOMA
UPDATE ON PRIOR YEAR AUDIT DEFICIENCIES
DECEMBER 31, 2013**

1. Lack of Segregation of Duties.

CONDITION AND EFFECT - The District does not have adequate segregation of duties in that it has only one office person that does all the bookkeeping, reconciliations, paying bills, and payroll. The effect of the lack of segregation of duties could result in material errors and fraud occurring and not be detected in a timely manner.

RECOMMENDATION - Recommend the District segregate the duties to the extent possible in the future.

RESPONSE - The District will keep this recommendation in mind should circumstances change in the future and it is economically feasible. The District is aware of this weakness in its internal control structure but does not consider it to be economically feasible to hire additional personnel to achieve adequate segregation of duties.

UPDATED COMMENT - This situation remains the same. Comment repeated.

2. Customer Deposits Payable.

CONDITION AND EFFECT - The District did not balance the customer meter deposits payable subsidiary ledgers to the cash account. The computer generated list of customer deposits did not include both active and inactive accounts. **This has been a repeat comment since the 2001 audit report.** The District has also applied the customer meter deposit to the customer's final bill, but have not transferred the actual cash from the savings account to the checking account, nor were accounting entries made in the general ledger for these transactions. Noted some billing customers had their meter deposits applied twice to their billing account in prior years. In 2011, the District did not actually pay to the customer a refund of their deposit. This is a violation of state statutes (Sec. 11-35-107) which state that a refund must be paid within 30 days of termination of service.

RECOMMENDATION - Recommend the District update its listing of customer meter deposits and correct any errors, if any. This list (both active and inactive accounts) should be printed at the end of each month and balanced monthly to the cash account to ensure accuracy. Any reconciling items or discrepancies should be documented and thoroughly investigated and corrections

**RURAL WATER, SEWER AND SOLID
WASTE MANAGEMENT DISTRICT #3,
ROGER MILLS COUNTY, OKLAHOMA
UPDATE ON PRIOR YEAR AUDIT DEFICIENCIES
DECEMBER 31, 2013**

2. Customer Deposits Payable (continued).

made as necessary. Applying the customer meter deposit to the customer's final bill should only be done when the customer meter deposit cash is transferred to the checking account and the account is closed or made inactive at the same time. Accounting entries should be made for all customer deposit transactions.

The District needs to comply with state statutes concerning refunding of deposits to customers.

Recommend the Board of Directors take an active interest in ensuring this comment is corrected since it has not been corrected since the 2001 audit.

RESPONSE - The District hired a new bookkeeper on December 16, 2015. The new bookkeeper has been training on her responsibilities and working hard to catch up on all the things that were not done before being hired.

UPDATED COMMENT - Comment repeated and revised as necessary as it has not been implemented.

3. Accounts Receivable and Billing Records.

CONDITION AND EFFECT - When a utility billing account is finalized, and the customer meter deposit is taken, the transactions are shown on the deposit disposition reports and shown on the final bill, but are not recorded in the billing account receivable records nor posted to the general ledger control account resulting in differences in the records. The reason for the differences in the billing statements and accounts receivable balances is not known. The District did a better job of posting the adjustments (bill reversals) and the monthly billings to the billing accounts and to the general ledger accounting records. The billing system totals for December, 2010, were not printed and retained in the billing records. An end of the month aging accounts receivable print-out was printed but the total due was not compared and/or reconciled to the general ledger control account. Thus the ending accounts receivable per the general ledger did not agree to the ending accounts receivable per the billing records. The end of month aging print-out did include both active and inactive accounts. **This has been a repeat comment since the 2001 audit report.** The effect of the lack of controls over

**RURAL WATER, SEWER AND SOLID
WASTE MANAGEMENT DISTRICT #3,
ROGER MILLS COUNTY, OKLAHOMA
UPDATE ON PRIOR YEAR AUDIT DEFICIENCIES
DECEMBER 31, 2013**

3. Accounts Receivable and Billing Records (continued).

accounts receivable and utility billing could result in material errors and fraud occurring and not be detected in a timely manner.

RECOMMENDATION - All transactions that adjust the balance of account receivable utility billing transactions should be posted to the general ledger control account. Deposit dispositions should be done when the cash is transferred to finalize the bills. The District should contact their software support personnel to find out why the system apparently is not recording these properly within the billing system. At the end of each month, an ending accounts receivable aging report should be printed showing all accounts (active and inactive) and the amounts due. The total of this report should agree to the general ledger accounts receivable balance. If any differences exist, then these amounts should be reconciled and documented. Adjusting entries should be made as necessary.

Recommend the Board of Directors take an active interest in ensuring this comment is corrected since it has not been corrected since the 2001 audit. Also recommend the bookkeeper take appropriate training on using the system to ensure the transactions are recorded properly. If no training is available, then the District should consider hiring a consultant to help in correcting these problems.

RESPONSE - The District has printed the aging report with the active and inactive accounts at the end of the month but did not reconcile to the general ledger. The District hired a new bookkeeper on December 16, 2015. The new bookkeeper has been training on her responsibilities and working hard to catch up on all the things that were not done before being hired.

UPDATED COMMENT - Comment repeated and revised as necessary. The District did not implement this recommendation.

4. Reconciling Accounting Records to the Bank Statements.

CONDITION AND EFFECT - The District has not been reconciling its bank general ledger accounts to the respective bank statements.

**RURAL WATER, SEWER AND SOLID
WASTE MANAGEMENT DISTRICT #3,
ROGER MILLS COUNTY, OKLAHOMA
UPDATE ON PRIOR YEAR AUDIT DEFICIENCIES
DECEMBER 31, 2013**

**4. Reconciling Accounting Records to the Bank Statements
(continued).**

Some adjusting entries were made. It appeared the checking account was being posted from the bank statement versus the source documents since a few reconciling items were not posted in the proper year. Some savings accounts did not have transactions for the year posted in the accounting records. The effect of not reconciling the accounting records to the bank statements could result in material errors and possible fraud occurring and not be detected in a timely manner.

RECOMMENDATION - The District should make sure all its accounting transactions are posted in the proper accounting period. Checks and deposits should be posted on the day they are written or prepared for deposit. The accounting records should be prepared from the source documents (check register/deposit slips) and reconciled to the bank statements monthly. Reconciling items should be documented, and adjustments (if any) should be made as needed. All bank accounts should be reconciled with the books. Noted the software program has a bank reconciliation menu item on it that the District is not using. **The District should consider utilizing the software program to do its bank reconciliations. The bookkeeper should also attend training classes on how to better use the software.**

RESPONSE - The District hired a new bookkeeper on December 16, 2015. The new bookkeeper has been training on her responsibilities and working hard to catch up on all the things that were not done before being hired. The bookkeeper did not know the software had a bank reconciliation menu item in it. She will get with the software company about how to use it.

UPDATED COMMENT - Comment repeated and revised as necessary. The checking account appears to have been posted from the bank statement instead of the source documents. The savings accounts did not have interest posted for the year except for the customer meter deposits. The new meter deposit checking account was not posted to the books at the beginning of the audit and had to be done.

**RURAL WATER, SEWER AND SOLID
WASTE MANAGEMENT DISTRICT #3,
ROGER MILLS COUNTY, OKLAHOMA
UPDATE ON PRIOR YEAR AUDIT DEFICIENCIES
DECEMBER 31, 2013**

5. Delinquent Utility Account Receivable Accounts.

CONDITION AND EFFECT - The District delinquent utility account receivable accounts have been increasing and some are seriously delinquent and have balances that exceed the respective customer meter deposit. Many are still receiving services. The District's Board of Directors review the delinquent accounts every month at their monthly meeting. These delinquent accounts include two board of director accounts as of December 31, 2011. At February 25, 2016, one of these delinquent director accounts was current and the other one was seriously delinquent and the delinquent balances was increasing. Noted no written deferral agreements in the District's files in accordance with the District rules and procedures guide. The effect of not following their rules and regulations increases the possibility of the District incurring losses and results in noncompliance with the established policy. It also could have negative consequences in the public's view about the management of the District.

RECOMMENDATION - The District should comply with its rules and regulations. Customers should bring their accounts current. This can be done by utilizing the deferral agreements and having them pay at least the current bill plus an extra amount on the delinquent bills. Employees and Directors accounts should not be delinquent. These should be brought current as soon as possible. With the District allowing the one Director to be seriously delinquent and the balances increasing, then this action (or lack of action) could potentially expose the other Directors to some personal liability.

RESPONSE - The Board will review the policies and procedures.

UPDATED COMMENT - Comment repeated. The District did not implement this recommendation. However, the Board of Directors approved sending shut off notices to anyone whose bill is over \$60 at the March 8, 2016, meeting.

6. Annual Meeting of Members.

CONDITION AND EFFECT - The District does not appear to have had any annual meeting of the members for 2009 to the present in accordance with their bylaws. Members are defined as those who subscribe or have a membership certificate and signed an agreement for the purchase of water and sewer services from the District. Bylaws state that an annual meeting of the members

**RURAL WATER, SEWER AND SOLID
WASTE MANAGEMENT DISTRICT #3,
ROGER MILLS COUNTY, OKLAHOMA
UPDATE ON PRIOR YEAR AUDIT DEFICIENCIES
DECEMBER 31, 2013**

6. Annual Meeting of Members (continued).

should occur on the first Monday in January of each year and it states the items that should be on the agenda. One item is the election of directors. No annual meeting minutes were located. The District is not in compliance with its bylaws.

RECOMMENDATION - The District should comply with its bylaws and have the annual meetings of its members. Proper notification of the meeting and the agenda should be followed as stipulated in the by-laws. Documentation of the notifications and meetings should be retained. The separate agenda and minutes should be kept of the annual meetings.

RESPONSE - The former clerk believed the monthly board meeting satisfied this requirement. The Board did have its regular meeting and some of the agenda items may have taken place there. The Board will review the by-laws and resume these meetings.

UPDATED COMMENT - Comment repeated. The District did not implement this recommendation.

7. Documenting Decisions of the Board in the Minutes.

CONDITION AND EFFECT - Noted a leak adjustment was given to a customer in the billing records in October, 2009. The hand written note stated the leak adjustment was approved by the Board at its October 9, 2009, meeting. Upon review of the minutes, this leak adjustment was not mentioned in the minutes. Since these minutes were approved by the Board, then it is the official record of the meeting. Consequently, no leak adjustment should have been given. The minutes do not reflect that the Board ever approved this leak adjustment.

RECOMMENDATION - Board decisions should be documented in the minutes of the meeting. If an item is omitted or in error, then the minutes should be amended to correct them. If the Board had in fact approved this leak adjustment, then the Board should approve an amendment to the minutes and state that fact at its next Board meeting. It should document the amendment in the minutes of the meeting it was approved and also write in the amendment to the original meeting minutes stating it was amended and when it was amended.

**RURAL WATER, SEWER AND SOLID
WASTE MANAGEMENT DISTRICT #3,
ROGER MILLS COUNTY, OKLAHOMA
UPDATE ON PRIOR YEAR AUDIT DEFICIENCIES
DECEMBER 31, 2013**

**7. Documenting Decisions of the Board in the Minutes
(continued) .**

RESPONSE - The District hired a new bookkeeper on December 16, 2015. The new bookkeeper has been training on her responsibilities and working hard to catch up on all the things that were not done before being hired. She will put it on the next meeting agenda.

UPDATED COMMENT - Comment repeated. The District did not implement this recommendation. There is no mention of this leak adjustment ever being approved in the minutes.